

## Message Text

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14

ACTION EB-07

INFO OCT-01 AF-06 ISO-00 SP-02 AID-05 NSC-05 CIEP-01

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 LAB-04

SIL-01 DODE-00 PM-04 H-02 L-03 PA-01 PRS-01 IO-10

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FM AMEMBASSY LAGOS

TO SECSTATE WASHDC 739

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E. O. 11652: N/A

TAGS: ECON, ALOW, NI

SUBJ: RISING NIGERIAN INFLATION

REFS: A) LAGOS A-20

B) LAGOS A-272 (12/9/74)

BEGIN UNCLASSIFIED

1. STATISTICS JUST RELEASED BY CENTRAL BANK (CBN) CONFIRM TO NIGERIAN RESIDENTS ALREADY PAINFULLY AWARE OF STEEPLY RISING PRICES THAT COUNTRY APPEARS ON VERGE OF HYPER INFLATION. CBN COMPOSITE CONSUMER PRICE INDEX (CPI) MOVED FROM 224 TO 262.1 IN JAN-MARCH PERIOD, A 17PC RISE FOR THE QUARTER AND AN ANNUAL RATE OF 68PC. CBN TOOK THE UNUSUAL STEP OF COMMENTING ON THE STATISTICS. BLAME FOR THE SPURT OF INFLATION WAS PUT ON TRADITIONAL JANUARY-MAY FOOD SHORTAGES, EXACERBATED THIS YEAR BY LINGERING IMPACT OF SAHEL DROUGHT; ON UDOJI PAYMENTS; AND ON PORT CONGESTION. INCREASED FOOD COSTS WERE SAID TO HAVE BEEN RESPONSIBLE FOR 80PC OF THE OVERALL RISE.

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2. HEAD OF STATE MUHAMMED, NOTED NEED FOR "CONDITIONS OF

RELATIVE ECONOMIC STABILITY TO BE ABLE TO PROPERLY ACHIEVE THE GOALS WE HAVE SET FOR OURSELVES," ANNOUNCED AUG. 16 THE ESTABLISHMENT OF AN ANTI-INFLATION TASK FORCE. (LAGOS 7842) THE TASK FORCE'S TERMS OF REFERENCE ARE: TO EXAMINE THE CURRENT INFLATIONARY TENDENCIES IN THE ECONOMY AND IDENTIFY THEIR CAUSES; TO REVIEW THE FISCAL, MONETARY AND OTHER ANTI-INFLATIONARY MEASURES BEING PURSUED; AND TO RECOMMEND, BEARING IN MIND THE ECONOMIC AND SOCIAL OBJECTIVES OF THE COUNTRY, SHORT AND LONG TERM POLICIES AND MEASURES THAT WOULD EFFECTIVELY CONTAIN INFLATIONARY PRESSURES IN THE NATIONAL ECONOMY. THE ELEVEN MAN PANEL WILL BE CHAIRED BY PROF. H.M.A. ONITIRI, DIRECTOR OF NIGERIAN INSTITUTE OF ECONOMIC RESEARCH AND IN ADDITION TO MILITARY, ACADEMIC, BUSINESS AND PRESS REPRESENTATIVES WILL INCLUDE SEVERAL OF THE FEDERAL GOVERNMENT'S MOST COMPETENT ECONOMISTS. IT IS EXPECTED TO SUBMIT ITS FIRST REPORT BEFORE OCTOBER 31.

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3. EMBASSY COMMENT: FOR VARIETY OF REASONS NOTED REF B, EMBASSY BELIEVES CBN'S CONSUMER PRICE SERIES OFTEN UNDERSTATES ACTUAL RATE OF PRICE INCREASES IN NIGERIA. FOR EXAMPLE, OFFICIAL CPI ROSE ONLY 9.9PC FOR CALENDAR YEAR 1974, AND ONLY 2.5PC FOR THE LAST SIX MONTHS OF 1974. WE DO NOT BELIEVE THESE FIGURES SQUARE WITH REALITY. WHETHER FIRST QUARTER RISE OF 17PC IN CPI MAY BE MORE VALID THAN PAST DATA BY VIRTUE OF MORE ACCURATE MEASUREMENT OR WHETHER IT TOO UNDERSTATES TRUE RATE OF INFLATION IS UNCLEAR. FOR WHAT IT MAY BE WORTH COST OF LIVING SURVEYS CARRIED OUT BY EMBASSY IN OCT/NOV. 1974 AND AGAIN IN MAY 1975 REVEALED THAT PRICES OF MANY FOOD ITEMS PURCHASED LOCALLY BY EXPATRIATE COMMUNITY HAD RISEN IN THAT TIME PERIOD BY 40PC AND MORE.

4. IT SHOULD NOT TAKE THE TASK FORCE LONG TO "REVIEW THE FISCAL, MONETARY AND OTHER ANTI-INFLATIONARY MEASURES BEING PURSUED." FISCAL MEASURES CONSIST FOR THE MOST PART OF REDUCING IMPORT DUTIES AND EVIDENCE SUGGESTS THAT THESE REDUCTIONS ARE NOT PASSED, AT LEAST IN THEIR ENTIRETY, TO CONSUMERS. ALTHOUGH MONETARY AUTHORITIES DID APPRECIATE THE LIMITED OFFICIAL USE

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NAIRA AGAINST MAJOR TRADING CURRENCIES EXCEPT THE MARK IN 1974 BY FROM 6.8PC TO 13.7PC, APPRECIATION THIS YEAR HAS CONTINUED ONLY AGAINST FALLING POUND. MOREOVER, THE EFFECT OF A SMALL CURRENCY REVALUATION IN THE FACE OF A NEAR DOUBLING OF THE MONEY SUPPLY IN THE LAST YEAR IS MINIMAL. OTHER ANTI-INFLATIONARY MEASURES HAVE INCLUDED FORMATION OF NATIONAL SUPPLY COMPANY, INTENDED TO HOLD DOWN PRICES THROUGH GREATLY INCREASED SUPPLY, AND PRICE CONTROL BOARD, BOTH NOTORIOUSLY

INEFFECTUAL.

5. SINCE THE PROBABLE BIGGEST SINGLE CAUSE OF HIGHER PRICES THIS YEAR, THE UDOJI AWARDS, IS NON-RECURRING, THE RATE OF INCREASE IN PRICES SHOULD SLOW, AND INFLATION FOR THE YEAR SHOULD NOT REACH 68PC. BUT THE GOVERNMENT IS BY NO MEANS OUT OF THE WOODS. PORT CONGESTION WHICH LEADS TO BOTH SHORTAGES AND SURCHARGES WHICH ARE PASSED ON TO CONSUMERS HAS WORSENED CONSIDERABLY SINCE MARCH. IT WILL CONTINUE TO BE A PROBLEM FOR SOME TIME DESPITE POSTPONEMENT OF FESTAC AND DIVERSION OF CARGO TO GHANA. GOVERNMENT MAY MODERATE THE GROWTH IN MONEY SUPPLY BUT TO CUT IT BACK TO THE LEVEL NECESSARY TO THROTTLE INFLATION WOULD BE INCOMPATIBLE WITH THE FMG'S TOP ECONOMIC PRIORITY - DEVELOPMENT. THE REMEDY MOST OFTEN SUGGESTED, INCREASE IN DOMESTIC SUPPLY, IS SIMPLY NOT A SHORT TERM SOLUTION. MATCHED AGAINST THE WELL KNOWN DIFFICULTIES, IS THE NEW GOVERNMENT'S AWARENESS THAT IN THE EYES OF THE NIGERIAN CITIZENRY ONE OF THE GOWON REGIME'S MOST UNPARDONABLE FAILINGS WAS ITS INABILITY TO CONTROL INFLATION. THE PRESSURE ON PROF. ONITIRI AND COLLEAGUES IS LIKELY TO BE CONSIDERABLE.

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